



CITY MANAGER'S OFFICE – INTERNAL AUDIT

DATE: March 19, 2014

TO: JERRY SCHUBER, Assistant Director, Public Utilities Department
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THROUGH: RENENA SMITH, Assistant City Manager *Renena Smith*

FROM: BOB KOURY, Principal Internal Auditor *Bob Koury*
Budget and Management Studies - Internal Audit

SUBJECT: LIMITED SCOPE AUDIT – NON-EXCLUSIVE FRANCHISE
AGREEMENTS FOR ROLL-OFF COLLECTION SERVICES

The City's Principal Internal Auditor recently performed a limited scope contract compliance audit of the Non-Exclusive Franchise Agreements for Roll-Off Collection Services in the City of Fresno. This limited scope audit was performed in accordance with AO 1-12 and Government Auditing Standards.

The primary purpose of this internal audit was to determine if all 20 roll-off collection services contractors had established adequate recordkeeping systems and internal controls related to all reporting requirements stipulated within the Franchise Agreement. Specific areas/sections of the Franchise Agreement, as selected by the Principal Internal Auditor, were audited to determine if adequate compliance by the contractors was accomplished, as well as if all appropriate franchise fees were properly calculated and remitted to the City as required by the Franchise Agreement.

The audit procedures included, but were not limited to, interviews of appropriate contractor personnel and examination of all relevant supporting documentation and tests of applicable records and reports/franchise fees remittances to the City of Fresno.

The 20 roll-off collection services contractors who have entered into non-exclusive franchise agreements with the City as of the audit report date and were included in this limited scope audit were as follows:

AAA Temporary Bin Service
AD&J Roll-Off Dumpster Service
Allied Waste Services
ALW Enterprises
Bairos Recycling
Clovis Recycling
F-N-F Roll-Off Service
Green Valley Recycling
Hinojosa Cleanup Service

Industrial Waste & Salvage
Kroeker
Mid Valley Disposal
Nick's Trucking
Pro Clean Up
Pruner Enterprises
Sunset Waste Systems
TSG Recycling Disposal
Waste Management of Fresno
West Coast Waste
Western Solid Waste dba Ponderosa Solid Waste

Limited Scope Audit Findings and Internal Audit Recommendations

In summary, the total amount of franchise fees received by the City from all 20 roll-off collection services contractors for FY2013 (Per PeopleSoft Financial System) was approximately \$569,400 compared to the budgeted amount for that year of \$387,700. For FY2014 through March 14, 2014, the total amount of franchise fees received/deposited by the City for roll-off services was approximately \$429,000 compared to the budgeted amount for the entire year of \$450,000.

Following are the audit findings and related recommendations resulting from this limited scope audit. The comments and audit recommendations in this report are intended to further improve the internal controls and monitoring functions over the timely and accurate receipt of the franchise fees by the City, and the monitoring of the insurance requirements by these contractors.

Accounting, Monitoring and Reporting of Roll-Off Franchise Fees Received

The UB&C Division of the Public Utilities Department is responsible for the receipt, monitoring, and accounting for all roll-off collection services franchise fees received from these contractors on a monthly basis. The timely receipt of all accurate roll-off franchise fees by the City from the 20 roll-off collection companies is critical to ensure the City is receiving all appropriate franchise fees which are deposited to the City's General Fund.

This Division and the responsible staff are commended for their efforts in performing these functions in a professional and adequate manner, and maintaining sufficient supporting documentation ("audit trail") as related to this very important function.

Audit Recommendation

1. The UB&C Division should continue to monitor, document and account for the timely and accurate receipt of all monthly roll-off franchise fees in accordance with the franchise agreement due dates and late payment penalties, as appropriate. Sufficient supporting documentation should also be consistently maintained as to the date the payments were actually received at the UB&C Division (via mail or in-person) and that the related monthly reports are arithmetically correct and agree to the payment amount.

Franchise Agreement Insurance Requirements and Related Monitoring

Audit procedures were performed in order to verify that all 20 roll-off collection contractors were in full compliance with Section 10 of the Franchise Agreement requirements related to Insurance. Overall, most all contractors did, in fact, have the required insurance coverage in place at the time of this audit. However, internal audit was unable to adequately confirm with the City's Risk Management Division that their office had on file the same "Certificates of Insurance" obtained during the course of this audit for all 20 roll-off collection services contractors.

The Risk Management Division is commended for their efforts in the monitoring function specific to these non-exclusive franchise agreements. They recently purchased new software through PlanetBids to track all insurance for this Program. This will significantly enhance their ability to ensure these companies remain compliant and to minimize any risk and/or possible exposure to the City of Fresno related to these roll-off collection services.

Audit Recommendation

2. The City's Risk Management Division should continue to monitor and verify compliance by all 20 City of Fresno roll-off collection services contractors that they have obtained all required insurance coverage, and that the policies do not expire/lapse with the use of their recently implemented software program.

We wish to thank you and your staff for your assistance during the course of this limited scope audit. If there are any questions or if we can be of further assistance to you regarding this matter, please contact Bob Koury, Principal Internal Auditor, at 621-7072.

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